KPMG

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Independent Auditors' Report

Division of Retirement and Benefits and
Members of the Alaska Teachers' Retirement Board
State of Alaska Teachers' Retirement System:

We have audited the accompanying combining statements of plan net assets of the State of Alaska Teachers' Retirement System (Plan), A Component Unit of the State of Alaska, as of June 30, 1999 and 1998, and the related combining statements of changes in plan net assets for the years then ended. These financial statements are the responsibility of the Plan's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the combining financial statements referred to above present fairly, in all material respects, the plan net assets of the State of Alaska Teachers' Retirement System, A Component Unit of the State of Alaska, as of June 30, 1999 and 1998, and the changes in plan net assets for the years then ended in conformity with generally accepted accounting principles.

The Year 2000 required supplementary information is not a required part of the financial statements, but is supplementary information required by the Governmental Accounting Standards Board, and we did not audit and do not express an opinion on such information. Further, we were unable to apply to the information certain procedures prescribed by professional standards because of the nature of the subject matter underlying the disclosure requirements and because sufficiently specific criteria regarding the matters to be disclosed have not been established. In addition, we do not provide assurance that the Plan is or will become Year 2000 compliant, that the Plan's Year 2000 remediation efforts will be successful in whole or in part, or that parties with which the Plan does business are or will become Year 2000 compliant.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The required supplementary information on pages 27 to 31 and additional information on pages 34 and 35 is presented for the purpose of additional analysis and is not a required part of the basic financial statements. This information is the responsibility of the Plan's management, has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

KPMG LLP

September 24, 1999

STATE OF ALASKA
TEACHERS' RETIREMENT SYSTEM
(A Component Unit of the State of Alaska)

Combining Statements of Plan Net Assets
(000s omitted)

June 30, 1999 and 1998

	1999			1998		
	Pension	Postemployment Healthcare	Total	Pension	Postemployment Healthcare	Total
Assets:						
Cash and cash equivalents (notes 3 and 4)						
Short-term fixed income pool	$ 227	50	277	5,441	1,189	6,630
Receivables:						
Contributions	6,945	1,536	8,481	7,969	1,741	9,710
Retirement incentive program employer contributions (note 6)	11,212	2,479	13,691	12,366	2,702	15,068
Due from State of Alaska General Fund	160	35	195	-	-	-
Total receivables	18,317	4,050	22,367	20,335	4,443	24,778
Investments, at fair value (notes 3 and 4):						
Domestic equity pool	1,434,738	368,002	1,802,740	1,300,334	332,801	1,633,135
Retirement fixed income pool	991,787	219,265	1,211,052	1,057,759	231,090	1,288,849
International equity pool	554,822	122,660	677,482	501,482	109,559	611,041
International fixed income pool	178,585	39,482	218,067	170,011	37,143	207,154
Real estate equity pool	135,038	29,853	164,891	89,891	19,639	109,530
Emerging markets equity pool	36,026	7,965	43,991	29,189	6,377	35,566
External domestic fixed income pool	34,738	7,680	42,418	-	-	-
Private equity pool	18,408	4,070	22,478	603	132	735
Total investments	3,384,142	798,977	4,183,119	3,149,269	736,741	3,886,010
Loans and mortgages, at fair value, net of allowance for loan losses of $360 in 1999 and $811 in 1998	1,074	237	1,311	1,041	227	1,268
Total assets	3,403,760	803,314	4,207,074	3,176,086	742,600	3,918,686
Liabilities:						
Accrued expenses	2,502	553	3,055	2,792	610	3,402
Alaska Department of Commerce settlement liability	-	-	-	10	3	13
Due to State of Alaska General Fund	-	-	-	29	7	36
Total liabilities	2,502	553	3,055	2,831	620	3,451
Net assets held in trust for pension and postemployment healthcare benefits	$3,401,258	802,761	4,204,019	3,173,255	741,980	3,915,235

(Schedules of funding progress are presented on pages 27 and 28)

See accompanying notes to combining financial statements.

STATE OF ALASKA
TEACHERS' RETIREMENT SYSTEM
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Combining Statements of Changes in Plan Net Assets
(000s omitted)

Years ended June 30, 1999 and 1998

	1999			1998		
	Pension	Postemployment Healthcare	Total	Pension	Postemployment Healthcare	Total
Additions:						
Contributions:						
Employers	$ 50,352	11,132	61,484	50,432	11,018	61,450
Employees	39,096	8,643	47,739	39,951	8,728	48,679
Retirement Incentive Program - Employers (note 6)	3,916	866	4,782	13,404	2,928	16,332
Retirement Incentive Program - Employees (note 6)	461	102	563	1,130	247	1,377
Total contributions	93,825	20,743	114,568	104,917	22,921	127,838
Investment income:						
Net appreciation in fair value of investments	210,928	46,632	257,560	298,475	65,208	363,683
Interest	84,412	18,662	103,074	79,154	17,293	96,447
Dividends	37,025	8,186	45,211	37,145	8,115	45,260
Net recognized mortgage loan recovery	615	136	751	103	23	126
	332,980	73,616	406,596	414,877	90,639	505,516
Less investment expense	7,450	1,647	9,097	6,997	1,529	8,526
Net investment income	325,530	71,969	397,499	407,880	89,110	496,990
Other	1	-	1	8	2	10
Total additions	419,356	92,712	512,068	512,805	112,033	624,838
Deductions:						
Benefits paid	187,085	30,987	218,072	169,831	26,123	195,954
Refunds to terminated employees	2,858	632	3,490	2,864	625	3,489
Administrative expenses	1,410	312	1,722	1,831	400	2,231
Total deductions	191,353	31,931	223,284	174,526	27,148	201,674
Net increase	228,003	60,781	288,784	338,279	84,885	423,164
Net assets held in trust for pension and postemployment healthcare benefits:						
Balance, beginning of year	3,173,255	741,980	3,915,235	2,834,976	657,095	3,492,071
Balance, end of year	$3,401,258	802,761	4,204,019	3,173,255	741,980	3,915,235

See accompanying notes to combining financial statements.

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June 30, 1999 and 1998

(1) DESCRIPTION

The following brief description of the State of Alaska Teachers' Retirement System (Plan), A Component Unit of the State of Alaska, is provided for general information purposes only. Participants should refer to the Plan agreement for more complete information.

(a) General

The Plan is a defined benefit, cost-sharing, multiple employer public employee retirement system established and administered by the State of Alaska (State) to provide pension and postemployment healthcare benefits for teachers and other eligible participants. Benefit and contribution provisions are established by State law and may be amended only by the State Legislature. The Plan is considered a component unit of the State financial reporting entity and is included in the State's financial reports as a pension trust fund.

At June 30, 1999 and 1998, the number of participating local government employers was:

School districts	53
Other	9
Total employers	**62**

Inclusion in the Plan is a condition of employment for permanent school district, University of Alaska and State Department of Education employees who meet the eligibility requirements for participation in the Plan. At June 30, 1998 and 1997, the dates of the most recent actuarial valuations, Plan membership consisted of:

	1998	1997
Retirees and beneficiaries currently receiving benefits and terminated employees entitled to future benefits	7,043	6,622
Current employees:		
Vested	5,285	5,366
Nonvested	3,977	3,798
	9,262	9,164
	16,305	**15,786**

(b) Pension Benefits

Vested employees hired prior to July 1, 1990, are entitled to pension benefits beginning at normal retirement age, fifty-five, or early retirement age, fifty. For employees hired after June 30, 1990, the normal and early retirement ages are sixty and fifty-five, respectively. Employees may also retire at any age and receive a normal benefit when they accumulate the required credited service.

The normal annual pension benefit is based on years of service and the average base salary. The average base salary is based upon the employee's three highest years salaries.

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The benefit related to all years of credited service prior to July 1, 1990 and for years of service through a total of twenty years is equal to 2% of the employee's average base salary. The benefit for each year over twenty years of service subsequent to June 30, 1990, is equal to 2-1/2% of the employee's base salary.

Minimum benefits for employees eligible for retirement are $25 per month for each year of credited service.

Married members must receive their benefits in the form of a joint and survivor annuity unless their spouses consent to another form of benefit, another person is eligible for benefits under a qualified domestic relations order or benefits are payable under the 1% supplemental contributions provision.

The Plan has two types of post-retirement pension adjustments (PRPA). The automatic PRPA is issued annually to all eligible benefit recipients when the cost of living increases in the previous calendar year. The automatic PRPA increase is paid beginning July 1 of each year. The discretionary PRPA may be granted to eligible recipients by the Plan Administrator, if the cost of living in the previous calendar year rises and the financial condition of the Plan permits. If both an automatic and discretionary PRPA are granted, and a retiree is eligible for both adjustments, the one that provides the retiree the greater increase will be paid.

(c) Postemployment Healthcare Benefits

When pension benefits begin, major medical benefits are provided without cost to (1) all employees first hired before July 1, 1990, and (2) employees who are disabled or age sixty-five or older, regardless of their initial hire dates. Employees first hired after June 30, 1990, may receive major medical benefits prior to age sixty-five by paying premiums.

Prior to July 1, 1997, postemployment healthcare benefits were provided by the payment of premiums to an insurance company. Beginning July 1, 1997, the Retiree Health Fund (RHF), an internal service fund of the State, was established. The RHF is self-funded and provides major medical coverage to retirees of the Plan. Retirees of three other State retirement plans also participate in the RHF. The Plan, along with the other participating plans, retains the risk of loss of allowable claims. Each year, RHF issues a publicly available financial report which may be obtained by writing to the State of Alaska, Department of Administration, Division of Retirement and Benefits, P.O. Box 110203, Juneau, Alaska 99811-0203 or by calling (907) 465-4460.

(d) Death Benefits

When benefits are payable under the 1% supplemental contribution provision, the employee's spouse is eligible for a spouse's pension if there is/are no dependent child(ren). If there is/are dependent child(ren), a survivor's allowance

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may be payable to the employee's spouse, or guardian of the dependent child(ren). The amount of the pension or allowance is determined by the employee's base salary. Employees first hired after June 30, 1982, are not eligible to participate in this provision.

If an active employee dies from occupational causes, the spouse may receive a monthly pension from the Plan. When death is due to occupational causes and there is no surviving spouse, the employee's dependent child(ren) may receive a monthly pension until they are no longer dependents. The amount of the occupational death pension changes on the date the employee's normal retirement would have occurred if the employee had lived. The new benefit is based on the employee's average base salary at the time of death and the credited service that would have accrued had the employee lived and continued to work until normal retirement. If benefits are payable under the 1% supplemental contribution provision, benefits are not payable under this provision. If the death was from nonoccupational causes, and the employee was vested, the spouse may receive a monthly survivor benefit based on a 50% joint and survivor option. If the employee is not married or vested, a lump sum death benefit is payable to the named beneficiary(ies).

(e) Disability Benefits

If an employee has been in membership service for five or more years for which contributions have been made, is not eligible for normal retirement benefits and becomes permanently disabled, the employee is entitled to a monthly benefit. The annual disability benefit is equal to 50% of the base salary at the time of the disability plus an additional 10% of his/her base salary for each dependent child up to a maximum of four children. At normal retirement age, a disabled employee receives normal retirement benefits.

(f) Contributions

<u>Employee Contributions</u>

Employees contribute 8.65% of their base salary as required by statute. The employee contributions are deducted before federal tax is withheld. Eligible employees contribute an additional 1% of their salary under the supplemental contribution provision. Contributions are collected by employers and remitted to the Plan and may be voluntarily or, under certain circumstances, involuntarily refunded to the employee or a garnishing agency sixty days after termination of employment. Employee contributions earn interest at the rate of 4.5% per annum, compounded annually.

<u>Employer Contributions</u>

The Plan's funding policy provides for periodic employer contributions at actuarially determined rates that, expressed as percentages of annual covered payroll, are sufficient to accumulate assets to pay both pension and postemployment healthcare benefits when due. Employer contribution rates are level percentages of payroll and are determined using the projected unit credit actuarial funding method. The Plan uses

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the level dollar method to amortize the unfunded liability or funding surplus over a rolling twenty-five year period.

(g) Administrative Costs

Administrative costs are financed through investment earnings.

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of Accounting

The Plan's financial statements are prepared using the accrual basis of accounting. Contributions are recognized in the period in which they are due. Benefits and refunds are recognized when due and payable.

(b) Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of additions and deductions during the reporting period. Actual results could differ from those estimates.

(c) GASB Statements No. 25 and No. 26

GASB Statements No. 25 and No. 26 require that plan net assets be split between pension and postemployment healthcare. To meet these requirements, plan assets, liabilities, revenues and expenses not specifically identifiable to either plan are allocated to the pension and postemployment healthcare plans based on their proportionate share of actuarial accrued liabilities.

(d) Investments

Security transactions and any resulting gains or losses are accounted for on a trade date (ownership) basis.

Investments are recorded at fair value. Fair value is "the amount that a plan can reasonably expect to receive for an investment in a current sale between a willing buyer and a willing seller - that is, other than in a forced or liquidation sale."

Net appreciation (depreciation) is determined by calculating the change in the fair value of investments between the end of the year and the beginning of the year, less purchases of investments at cost, plus sales of investments at fair value.

Investment expense consists of those administrative expenses directly related to the Plan's investment operations.

Real estate investments include real estate equities, mortgage loans and other real estate acquired by foreclosure and judgments. Real estate equities are valued quarterly by public market quotations, where a quoted market exists, or by independent appraisers, and are

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periodically adjusted by trustees of the real estate equity funds when market conditions change. The cost of real estate equity securities is determined on the average cost basis. Mortgage loans are valued at their principal balance (cost) less an allowance for loan loss, the net result of which approximates fair value. The allowance for loan loss is considered by management to be sufficient to cover any losses to the mortgage loan portfolio. Real estate acquired by foreclosure and judgments is carried at estimated net realizable value.

Venture capital investments in the private equity pool are comprised of limited partnerships in privately held companies of which equity ownership is not traded on a national or international exchange. Investments in the private equity pool are valued quarterly by the general partners and investment sponsors. The private equity oversight manager is held to a standard of reasonable care in verifying that the general partners' valuations reasonably reflect the underlying value of the investments. The cost of investments in the private equity pool is determined on the average cost basis.

The fair value of all other debt and equity securities is determined by the custodial agent daily. The custodian determines fair value using pricing services or prices quoted by one or more independent brokers. Equity securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates, if applicable. Fair value of debt securities has been established as the midpoint between the bid and asked prices. The cost of debt and equity investments is determined on the average cost basis.

The Plan holds shares, rather than specific securities, in the emerging markets equity pool, a closed-end mutual fund-like commingled equity investment pool. Underlying securities within the pool are priced on the last business day of each week and each month. Equity securities are valued using the last reported sale price on the exchange on which the securities are traded as of the close of business on the day the securities are being valued, or, in the absence of any sales price, at the last reported bid price. Fixed income securities are valued at prices obtained from a bond pricing service when such prices are available; otherwise, such securities are valued at the mid-point between the bid and asked price or at prices for securities of comparable maturity, quality and type. Short-term securities with 60 days or less to maturity are amortized to maturity based on cost. Securities expressed in terms of foreign currencies are translated into U.S. dollars at the prevailing market rates. Forward currency contracts are valued at the mid-point of representative quoted bid and asked prices. Securities and assets for which representative market quotations are not readily available are valued at fair value as determined in good faith under policies approved by the commingled equity fund's board of directors.

(e) Contributions Receivable

Contributions from employees and employers for service through June 30 are accrued. These

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contributions are considered fully collectible and, accordingly, no allowance for uncollectible receivables is reflected in the financial statements.

(f) Federal Income Tax Status

The Plan purports to be a qualified plan under Section 401(a) of the Internal Revenue Code and is exempt from federal income taxes under Section 501(a).

(3) INVESTMENTS

The Governmental Accounting Standards Board (GASB) Statement No. 3 requires a disclosure regarding custodial credit risk to indicate the chance of loss in the event a financial institution or third party holding the Plan's securities fails. Those investments represented by specific, identifiable securities are classified into three categories of credit risk:

Category 1 - Insured or registered, or securities held by the State or its custodian in the State's name;

Category 2 - Uninsured or unregistered, with securities held by the counterparty's trust department (if a bank) or agent in the State's name; and

Category 3 - Uninsured and unregistered, with securities held by the counterparty, or by its trust department (if a bank) or agent, but not in the State's name.

Category 1 is the highest level of safekeeping security as defined by GASB.

At June 30, 1999 and 1998, the Plan's cash and cash equivalents and investments other than mortgage-related assets are represented by participation in investment pools rather than specific, identifiable securities. Although pooled investments represent the Plan's share of ownership in the pool rather than ownership of specific securities, all of the underlying securities in the pools in which the Plan participates are considered to be Category 1 as defined by GASB Statement No. 3, except: (A) investments in the mutual fund-like emerging markets equity pool which are considered to be Category 2, and (B) shares in the private equity pool and the real estate equity pool which, like the Plan's mortgage-related assets, are not transferable financial instruments and therefore cannot be categorized with regard to custodial credit risk.

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June 30, 1999 and 1998

The cost and fair value of the Plan's investments at June 30, 1999 and 1998 are as follows:

	Cost	Fair Value
1999:		
Domestic equity pool	$ 1,249,977	1,802,740
Retirement fixed income pool	1,241,871	1,211,052
International equity pool	614,882	677,482
International fixed income pool	229,635	218,067
Real estate equity pool	153,180	164,891
Emerging markets equity pool	47,691	43,991
External domestic fixed income pool	42,045	42,418
Private equity pool	23,475	22,478
	3,602,756	4,183,119
Loans and mortgages, net of allowance for loan losses of $360	1,311	1,311
	$ 3,604,067	**4,184,430**
1998:		
Domestic equity pool	$ 1,179,988	1,633,135
Retirement fixed income pool	1,252,627	1,288,849
International equity pool	604,849	611,041
International fixed income pool	215,308	207,154
Real estate equity pool	122,103	109,530
Emerging markets equity pool	47,133	35,566
Private equity pool	735	735
	3,422,743	3,886,010
Loans and mortgages, net of allowance for loan losses of $811	1,268	1,268
	$ 3,424,011	**3,887,278**

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Notes to Combining Financial Statements
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June 30, 1999 and 1998

During 1999 and 1998, the Plan's investments (including investments bought, sold, as well as held during the year) appreciated (depreciated) in value as follows:

	1999	1998
Investments measured by quoted fair values in an active market:		
Domestic equity pool	$234,905	295,815
Retirement fixed income pool	(59,881)	50,031
International equity pool	71,966	(16,138)
International fixed income pool	(2,872)	(10,714)
Real estate equity pool	6,157	5,087
Emerging markets equity pool	7,866	(19,695)
Tactical asset allocation pool	-	4,669
Global equity pool	-	54,628
External domestic fixed income pool	417	-
Private equity pool	(998)	-
	$257,560	363,683

Based on the Plan's percentage of ownership in each investment pool as of June 30, 1999 and 1998, the Plan held no individual investments which exceeded 5% of net assets held in trust for pension and postemployment healthcare benefits.

The Alaska State Pension Investment Board (ASPIB) has statutory oversight of the Plan's investments and the authority to invest the Plan's monies. As the fiduciary, ASPIB has the statutory authority to invest the assets under the Prudent Investor Rule. Alaska Statute provides that investments shall be made with the judgment and care under circumstances then prevailing that an institutional investor of ordinary professional prudence, discretion and intelligence exercises in managing large investment portfolios. Actual investing is performed by the investment officers of the Division of Treasury of the Department of Revenue or by contracted external investment managers.

(4) POOLED INVESTMENTS

(a) Short-Term Fixed Income Pool

The Plan, along with other State funds and retirement systems, participates in an internally managed short-term fixed income pool, which was established March 15, 1993, with a start up unit price of $1 per share. Each participant owns shares in the pool, the number of which fluctuates daily with contributions, withdrawals and income. A share price of $1 is maintained, giving each participant one share for every dollar invested in the short-term fixed income pool. The assets of the short-term fixed income pool are comprised of money market instruments, U.S. Treasuries, U.S. Government agency and sponsored securities, mortgage- and asset-backed securities, and collateralized mortgage obligations, as well as corporate and other U.S. dollar denominated bonds. At June 30, 1999 and 1998, the Plan has a .02% and .09% direct ownership in the short-term fixed income

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pool totaling $277 and $6,630, respectively. These amounts include interest receivable of $25 and $28, respectively.

(b) Domestic Equity Pool

The Plan, along with three other State retirement systems, participates in an externally managed domestic equity pool. The pool was established July 1, 1991, with a start up unit price of $1,000 per share. All income, including interest, dividends, and realized and unrealized gains and losses, is allocated monthly to each participant on a pro rata ownership basis and is reinvested.

At June 30, 1999 and 1998, the Plan's investment in the domestic equity pool totaled 33.85% and 34.37%, respectively, and consisted of the following:

	1999	1998
Domestic equity securities	$1,732,160	1,577,776
Available cash held in the short-term fixed income pool and other short-term debt instruments	73,386	61,965
Net payables	(2,806)	(6,606)
	$1,802,740	1,633,135

(c) Retirement Fixed Income Pool

The Plan, along with three other State retirement systems, participates in an internally managed retirement fixed income pool. The pool was established March 1, 1996, with a start up unit price of $1,000 per share. The net asset value per share is determined by dividing the total fair value of the net assets of the pool by the number of units of the pool outstanding on the valuation date. Ownership in the pool is based on the number of shares held by each participant. Contributions to and withdrawals from the pool are based on the net asset value per share on the date of the transaction.

At June 30, 1999 and 1998, the Plan's investment in the retirement fixed income pool totaled 33.54% and 33.45%, respectively, and consisted of the following:

	1999	1998
Corporate	$ 398,520	423,034
U.S. Treasury	394,092	346,012
Federal agency and U.S. Government sponsored	147,900	243,958
Mortgage related	101,067	101,677
Asset backed	12,654	-
Yankees	125,823	148,670
Available cash held in the short-term debt instruments	5,629	967
Net receivables	25,367	24,531
Total	$1,211,052	1,288,849

(d) International Equity Pool

The Plan, along with three other State retirement systems, participates in an externally

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managed international equity pool. The pool was established January 1, 1992, with a start up unit price of $1,000 per share. Each manager may independently determine the allocation between equities and short-term debt instruments. All income, including interest, dividends, and realized and unrealized gains and losses, is allocated monthly to each participant on a pro rata ownership basis and is reinvested.

At June 30, 1999 and 1998, the Plan's investment in the international equity pool totaled 34.12% and 34.87%, respectively, and consisted of the following:

	1999	1998
International equity securities	$ 647,330	571,138
Available cash held in short-term debt instruments and foreign currency	26,779	37,124
Net receivables	3,373	2,779
	$ 677,482	611,041

(e) International Fixed Income Pool

The Plan, along with one other State retirement system, participates in an externally managed international fixed income pool. The pool was established March 3, 1997, with a start up unit price of $1,000 per share. The net asset value per share is determined by dividing the total fair value of the net assets of the pool by the number of units of the pool outstanding on the valuation date. Ownership in the pool is based on the number of shares held by each participant. Contributions to and withdrawals from the pool are based on the net asset value per share on the day of the transaction.

At June 30, 1999 and 1998, the Plan's investment in the international fixed income pool totaled 34.38% and consisted of the following:

	1999	1998
Foreign corporate securities	$ 209,614	198,861
Available cash held in short-term debt instruments	3,248	3,016
Interest receivable	5,205	5,277
	$ 218,067	207,154

(f) Real Estate Equity Pool

The Plan, along with one other State retirement system, participates in an externally managed real estate equity pool. The pool was established June 27, 1997, with a start up unit price of $1 per share. Ownership in the pool is based on the number of shares held by each participant. Contributions to and withdrawals from the pool are based on the net asset value per share on the day of the transaction. All income, including interest, income from operations, and realized and unrealized gains and losses, is allocated monthly to each participant on a pro rata ownership basis. All income is reinvested except for cash distributions which are transferred to the

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retirement fixed income pool based on a pro rata ownership in the originating pool. At June 30, 1999, and 1998 the Plan has a 34.43% and 34.39% direct ownership in the real estate equity pool totaling $164,891 and $109,530, respectively.

(g) Emerging Markets Equity Pool

The Plan, along with one other State retirement system, participates in an emerging markets equity pool. The pool was established May 2, 1994, with a start up unit price of $1,000 per share. The pool participates in two externally managed commingled investment funds through ownership of equity shares. The commingled funds, comprised of various institutional investors, invest in the equity markets of developing countries. At June 30, 1999 and 1998, the Plan had a 35.00% ownership in the pool totaling $43,991 and $35,566, respectively.

(h) External Domestic Fixed Income Pool

The Plan, along with three other State retirement systems, participates in an externally managed domestic fixed income pool. The pool was established June 25, 1999, with a start up unit price of $1,000 per share. The net asset value per share is determined by dividing the total fair value of the net assets of the pool by the number of units of the pool outstanding on the valuation date. Ownership in the pool is based on the number of shares held by each participant. Contributions to and withdrawals from the pool are based on the net asset value per share on the day of the transaction.

At June 30, 1999, the Plan's investment in the external domestic fixed income pool totaled 33.59% and consisted of the following:

	1999
Corporate	$ 1,947
U.S. Treasury	19,032
Federal agency	1,533
Mortgage related	11,871
Available cash held in the short-term fixed income pool	21,166
Net payables	(13,131)
Total	$ 42,418

(i) Private Equity Pool

The Plan, along with one other State retirement system, participates in an externally managed private equity pool. The pool was established April 24, 1998, with a start up unit price of $1,000 per share. Ownership in the pool is based on the number of shares held by each participant. Underlying assets in the pool are composed of venture capital, buyouts, and special situations investments through limited partnership agreements. Contributions to and withdrawals from the pool are based on the net asset value per share on the day of the transaction. All income, including interest and realized and unrealized gains and losses, is allocated monthly to each participant on a pro rata ownership basis and is reinvested. At June, 30, 1999, and 1998 the Plan has a 34.50% and 34.49% direct ownership in the private equity pool totaling $22,478 and $735, respectively.

(Continued)

STATE OF ALASKA
TEACHERS' RETIREMENT SYSTEM
(A Component Unit of the State of Alaska)

Notes to Combining Financial Statements
(000s omitted)

June 30, 1999 and 1998

(j) Global Equity Pool

The Plan, along with three other State retirement systems, participated in an externally managed global equity pool. The pool was established October 1, 1996, with a start up unit price of $1,000 per share. Each manager independently determined the allocation between domestic and international equities. All income, including interest, dividends, and realized and unrealized gains and losses was allocated monthly to each participant on a pro rata ownership basis and was reinvested. The global equity pool was disaggregated on April 1, 1998; assets were transferred to their respective domestic and international equity pools.

(k) Tactical Asset Allocation Pool

The Plan, along with three other State retirement systems, participated in an externally managed tactical asset allocation pool. The pool was established July 1, 1996, with a start up unit price of $1,000 per share. The manager independently determined the allocation between equities and fixed income securities. All income, including interest, dividends, and realized and unrealized gains and losses, was allocated monthly to each participant on a pro rata ownership basis and was reinvested. The tactical asset allocation pool closed on December 31, 1997.

(5) FOREIGN EXCHANGE CONTRACTS AND OFF-BALANCE SHEET RISK

The Plan, through its investment in the international equity pool and international fixed income pool, entered into foreign currency forward contracts to buy and sell specified amounts of foreign currencies at specified rates on specified future dates for the purpose of hedging existing security positions in these currencies. The maturity periods for these contracts range from one to three months. The Plan had net unrealized gains with respect to such contracts, calculated using forward rates at June 30, as follows:

	1999	1998
Net contract sales	$ 13,889	20,421
Less: fair value	13,727	19,928
Net unrealized gains on contracts	**$ 162**	**493**

The counterparties to the foreign currency forward contracts consist of a diversified group of financial institutions. The Plan is exposed to credit risk to the extent of nonperformance by these counterparties; however, the Plan considers the risk of default to the remote. The Plan's market risk is limited to the difference between contractual rates and forward rates at the balance sheet date.

(6) RETIREMENT INCENTIVE PROGRAM

House Bill 354 (Chapter 65, SLA 96) was passed on June 18, 1996, and provides for a retirement incentive program (RIP or program) for members of school district employers and employees of Mt. Edgecumbe and the Alaska Vocational Technical Center. The RIP encourages eligible employees to retire up to three years earlier

(Continued)

STATE OF ALASKA
TEACHERS' RETIREMENT SYSTEM
(A Component Unit of the State of Alaska)

Notes to Combining Financial Statements
(000s omitted)

June 30, 1999 and 1998

than they had planned as a cost savings for school districts. The incentive program may be implemented if the program will produce an overall cost savings to the employer. The application and retirement deadlines are determined by the employer when they establish a program. The original application period for school district employees under House Bill 354 was June 30, 1996, through December 31, 1996. During fiscal year 1997, Senate Bill 130 (Chapter 92, SLA 97) was passed which amended the original program. Senate Bill 130 allows for additional application periods of 30-60 days, ending no later than June 30, 1999.

Employers who participate in the RIP are required to reimburse the Plan for the actuarial equivalent of the difference between the benefits each employee receives after the addition of the retirement incentive under the program and the amount the employee would have received without the incentive, less any amount the employee was indebted as a result of retiring under the program. Reimbursements from employers are due in minimum equal annual installments so that the entire balance is paid within three years after the end of the fiscal year in which each employee retires.

Employers are also required to reimburse the Plan for the estimated costs of administering the program. The Plan establishes a receivable for employer reimbursements and administrative costs as employees retire. During fiscal years 1999 and 1998, the Plan recognized $4,782 and $16,332, respectively, of additions to plan net assets for contributions from employers for required reimbursements related to the RIP.

When employees terminate employment to participate in the program, they are indebted to the Plan for 25.95% of their annual compensation for the calendar year in which they terminate. Any outstanding indebtedness at the time an employee is appointed to retirement results in an actuarial adjustment of his/her benefit amount. During fiscal years 1999 and 1998, the Plan recognized $563 and $1,377, respectively, of additions to plan net assets for contributions from employees related to the RIP.

(7) SETTLEMENT OF LAWSUIT

During 1997, the State finalized a settlement of a lawsuit involving issues surrounding the payment of Medicare premiums and automatic and discretionary cost-of-living increases. The settlement stated the plaintiffs will not appeal the court's rulings on the Medicare premium and automatic cost-of-living statutes, and will amend their complaint to include the failure to award discretionary cost-of-living adjustments in July 1994 and July 1995 (so that those decisions cannot be the subject of future litigation). In exchange, the Plan granted a discretionary cost-of-living increase retroactive to July 1, 1995. The increase was two percent compounded, and was administered as past discretionary cost-of-living increases have been administered.

The payment of this retroactive discretionary cost-of-living increase, approximately $18,300, is included in the statement of changes in Plan net assets as benefits paid during 1998.

The settlement will be recovered from employers through a change in the rate that they must pay to the system, so as to replenish the Plan for the amounts paid out under the settlement.

STATE OF ALASKA
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Required Supplementary Schedule
June 30, 1999 and 1998

Schedule of Funding Progress
Pension Benefits
(000s omitted)

Actuarial valuation year ended June 30	Actuarial value of plan assets	Actuarial accrued liabilities (AAL)	Unfunded actuarial accrued liabilities (UAAL)	Funded ratio	Covered payroll	UAAL as a percentage of covered payroll
1993	$1,877,074	2,016,852	139,778	93.1%	459,746	30.4%
1994	2,042,890	2,281,178	238,288	89.6%	476,098	50.1%
1995	2,178,011	2,396,911	218,900	90.9%	477,205	45.9%
1996	2,335,295	2,402,020	66,725	97.2%	465,182	14.3%
1997	2,563,693	2,728,050	164,357	94.0%	466,455	35.2%
1998	2,825,528	2,893,325	67,797	97.7%	469,433	14.4%

See notes to required supplementary schedules.

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Required Supplementary Schedule
June 30, 1999 and 1998

Schedule of Funding Progress
Postemployment Healthcare Benefits
(000s omitted)

Actuarial valuation year ended June 30	Actuarial value of plan assets	Actuarial accrued liabilities (AAL)	Unfunded actuarial accrued liabilities (UAAL)	Funded ratio	Covered payroll	UAAL as a percentage of covered payroll
1993	$ 384,008	412,604	28,596	93.1%	459,746	6.2%
1994	430,067	480,231	50,164	89.6%	476,098	10.5%
1995	469,381	516,556	47,175	90.9%	477,205	9.9%
1996	523,461	538,417	14,956	97.2%	465,182	3.2%
1997	556,351	592,019	35,668	94.0%	466,455	7.6%
1998	620,542	635,432	14,890	97.7%	469,433	3.2%

See notes to required supplementary schedules.

STATE OF ALASKA
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Required Supplementary Schedule
June 30, 1999 and 1998

Schedule of Employer Contributions
Pension and Postemployment Healthcare Benefits
(000s omitted)

Year ended June 30	Pension annual required contribution	Post-employment healthcare annual required contribution	Total annual required contribution	Total annual actual contribution (note 3)	Pension percentage contributed (note 3)
1994	$65,103	13,484	78,587	60,490	77%
1995	55,126	11,694	66,820	60,018	90%
1996	52,262	11,346	63,608	61,162	96%
1997	62,831	14,170	77,001	61,766	80%
1998	62,787	13,717	76,504	61,450	80%
1999	44,142	9,759	53,901	61,484	114%

Year ended June 30	Post employment healthcare percentage contributed (note 3)	Total percent-age contributed (note 3)	Actual required contribution percentage (note 3)	Actual contribution percentage (note 3)
1994	77%	77%	15.59%	12.00%
1995	90%	90%	13.36%	12.00%
1996	96%	96%	12.48%	12.00%
1997	80%	80%	14.96%	12.00%
1998	80%	80%	14.94%	12.00%
1999	114%	114%	10.52%	12.00%

See notes to required supplementary schedules.

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Notes to Required Supplementary Schedules

June 30, 1999 and 1998

(1) DESCRIPTION OF SCHEDULE OF FUNDING PROGRESS

Each time a new benefit is added which applies to service already rendered, an "unfunded actuarial accrued liability" is created. Laws governing the Plan require that these additional liabilities be financed systematically over a period of future years. Also, if actual financial experiences are less favorable than assumed financial experiences, the difference is added to the unfunded actuarial accrued liability.

In an inflationary economy, the value of the dollar is decreasing. This environment results in employee pay increasing in dollar amounts resulting in unfunded actuarial accrued liabilities increasing in dollar amounts, all at a time when the actual value of these items, in real terms, may be decreasing.

(2) ACTUARIAL ASSUMPTIONS AND METHODS

The actuarial valuation is prepared by William M. Mercer, Incorporated. The significant actuarial assumptions used in the valuation as of June 30, 1998, are as follows:

(a) Actuarial cost method - projected unit credit, unfunded accrued benefit liability, or funding surplus amortized over a rolling twenty-five year period.

(b) Mortality basis - 1984 Unisex Pension Mortality Table set forward one year for male members and set backward four years for female members. All deaths are assumed to result from nonoccupational causes.

(c) Retirement age - retirement rates based on the 1991-1995 actual experience.

(d) Investment return - 8.25% per year, compounded annually, net of expenses.

(e) Health cost inflation - FY98 6.5% and FY99 and thereafter 5.5% per annum.

(f) Salary scale - inflation 4.0%, productivity 0.5%, merit (first five years) 1.0%, for a total of 5.5% per annum.

(g) Inflation - total inflation as measured by the Consumer Price Index for urban and clerical workers for Anchorage is assumed to increase 4% annually.

(h) Cost of living allowance (domicile in Alaska) - 62% of those benefit recipients who are eligible for the allowance are assumed to remain in Alaska and receive the allowance.

(i) Contribution refunds - 100% of those employees terminating after age thirty-five who are vested will leave their contributions in the Plan and thereby retain their deferred vested benefit. All others who terminate are assumed to have their contributions refunded.

(j) Turnover and disability assumptions are based upon the 1991-1995 actual experience of the Plan.

(k) Asset valuation method - recognized 20% of the investment gain or loss in each of the

(Continued)

STATE OF ALASKA
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Notes to Required Supplementary Schedules

June 30, 1999 and 1998

current and preceding four years. All assets are valued at fair value. Valuation assets cannot be outside a range of 80% to 120% of the fair value of assets.

(l) Valuation of medical benefits for retirees - a pre-age sixty-five cost and lower post-age sixty-five cost (due to Medicare) are assumed such that the total rate for all retirees equals the present premium rate assumption. These medical premiums are then increased with the health cost inflation assumption.

The assumptions and methods, when applied in combination, fairly represent past and anticipated future experience of the Plan. The foregoing actuarial assumptions are based on the presumption that the Plan will continue. Were the Plan to terminate, different actuarial assumptions and other factors might be applicable in determining the actuarial present value of accumulated benefits.

All significant accounting policies, benefit provisions, and actuarial assumptions are the same for the required supplementary information and the financial statements except as follows:

Effective June 30, 1994, there was a change in the economic actuarial assumptions and asset valuation method. The total inflation assumption was changed from 5% to 4% annually. This affected the economic assumptions, including investment return, salary scale, and health cost trend. The revised asset valuation method smoothes the difference between expected investment return and actual return during a given year by spreading the results over five years by recognizing 20% of the investment gain or loss in each of the current and preceding four years.

Effective June 30, 1996, the investment return was increased from 8% to 8.25% per year. Turnover, retirement, and disability assumptions were revised based on actual experience in 1991-1995. The cost of living allowance was decreased from 66% to 62% participation. In addition, the amortization period for funding surpluses was changed from five years to a rolling twenty-five year period.

(3) ENHANCED ACTUARIAL PROJECTION SYSTEM

The Plan's actuary, at the request of the Teachers' Retirement Board, uses an enhanced actuarial projection system to determine annual employer contribution rates. Although the same actuarial cost method is used by the Plan's actuary, the enhanced system projects population growth patterns and their associated liabilities twenty-five years into the future.

The purpose of the enhanced actuarial projection system is to level out contribution rates in order to provide employers with a more stable long-term contribution pattern.

The Plan's utilization of the enhanced actuarial projection system resulted in 1994-1998 employer contributions being less than the annual required contribution and 1999 employer contributions being more than the annual required

(Continued)

STATE OF ALASKA
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Required Supplementary Information
Year 2000 (Unaudited)

June 30, 1999 and 1998

contribution.

The Year 2000 issue, in general, involves shortcomings in many data processing systems that could cause systems to shut down or to miscalculate certain information connected to date values. Year 2000 readiness is critical to the Plan and its members. The data processing systems the Plan depends on must be able to operate in the Year 2000 and the future as they do currently.

The Plan has made a review of its systems that can be affected and are necessary to the conduct of the Plan's operations.

The Plan depends on several types of data processing systems, of which there are many.

(a) Internal Systems

These are systems that the Plan uses internally, *directly under its control*, to process data it has received (employee indicative data, payroll contributions, account summary information, web applications, etc.) and to pass on data to other systems that process it further (contribution information, indicative data changes, distribution authorizations, etc.).

(b) External Systems

These are systems that the Plan depends on, *NOT under the direct control of the Plan*, that send member information to the Plan (state and political subdivision payroll information and indicative data, etc.), systems that handle the transfer of data (networks and centralized data processing systems outside the control of the division), systems that perform various functions for members (detailed statement accounting, investment transactions, etc.), and general systems such as the nationwide banking system that everyone depends on.

In turn, these outsource operators are further dependent on other providers they must interact with that are NOT under their direct control (fund managers, custodians, etc.).

(c) General Infrastructure Systems

These are systems that the Plan and External providers depend on, *NOT under the direct control of the Plan*, that allow both of the system types indicated above to operate. They include electrical, telephone, internet, postal, and other utilities.

Several detailed processes have been used to achieve Year 2000 readiness. Since the Plan has no control over General Infrastructure components it has conducted its Year 2000 assessment and remediation process assuming the infrastructure components to be in working order for Year 2000 purposes:

- Awareness Stage—The Plan established a project plan for dealing with Year 2000 issues. Expenditures in conjunction with the correcting Year 2000 issues are expensed as incurred and have not been, nor are they expected to be, material to the Plan's financial statements.

- Assessment Stage—Inventories were made of the various system components (both Internal and External) and identified by those that are mission critical and must be Year

(Continued)

STATE OF ALASKA
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Required Supplementary Information
Year 2000 (Unaudited)

June 30, 1999 and 1998

2000 ready.

- Remediation Stage

  (1) For Internal systems—mission critical components were tested by Plan employed personnel or contractors and the extent and type of repair was determined, if found necessary.

  (2) For External systems—the Plan depends on assurances from outside organizations that are responsible for such systems.

- Validation/Testing Stage—The Plan has conducted specific tests to determine Year 2000 readiness. Programs and systems were converted and renovated to fix existing problems. The Year 2000 changes were also moved into production.

  For Internal systems, personnel or contractors under the Plan's direct control conducted such testing and validation. In the case of External systems—the Plan depends on assurances from the organizations that are responsible for those systems. However, specific test files which contained Year 2000 test data were submitted by the Plan to the outsource organization to determine their Year 2000 readiness.

- Contingency Planning—In the unlikely event a Year 2000 related interruption of the Plan's systems does occur, prepared contingency plans, for systems under the plans control, will be activated to minimize impacts on Plan operations.

The Plan is expected to transition successfully to Year 2000 with a minimum of disruption. However, there can be no absolute assurances that every system will be flawlessly Year 2000 ready by December 31, 1999, or that the Plan will not suffer unexpected material adverse consequences as a result of failure of computer systems or imbedded chips to recognize the Year 2000. It is also possible that the failure of entities beyond the control of the Plan and the State of Alaska could have a material impact on the operation or finances of the Plan.

As the U.S. Securities and Exchange Commission stated in its first report to Congress on the Year 2000 issue:

> "It is not, and will not, be possible for any single entity or collective enterprise to represent that it has achieved complete Year 2000 compliance and thus guarantee its remediation efforts. The problem is simply too complex for such a claim to have any legitimacy. Efforts to solve Year 2000 problems are best described as 'risk mitigation.' Success. . . will have been achieved if the number and seriousness of any technical failures is minimized, and they are quickly identified and repaired if they occur."

The Plan agrees with that philosophy and has taken positive, direct steps to remain Year 2000 ready.

To the maximum extent permissible under the Federal Year 2000 Information and Readiness Disclosure Act of 1998, and for all purposes not expressly excluded under that Act, the information provided above is a Year 2000 readiness

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Schedule of Administrative and Investment Expenses
(000s omitted)

Year ended June 30, 1999
with comparative totals for 1998

disclosure statement made under that Act.

	Administrative expenses	Investment expenses	Totals 1999	Totals 1998
Personal services:				
Wages	$ 777	375	1,152	1,497
Benefits	265	112	377	519
Other	1	-	1	60
Total personal services	1,043	487	1,530	2,076
Travel:				
Transportation	33	24	57	55
Per diem	27	20	47	43
Moving	-	-	-	1
Honorarium	-	11	11	9
Total travel	60	55	115	108
Contractual services:				
Accounting and auditing	17	403	420	515
Management and consulting	80	7,791	7,871	7,242
Legal	12	19	31	22
Medical specialists	7	-	7	8
Data processing	253	18	271	183
Other professional services	122	27	149	119
Communications	38	48	86	87
Transportation	1	2	3	3
Advertising and printing	20	94	114	134
Repairs and maintenance	1	5	6	6
Rentals/leases	7	25	32	38
Other services	8	94	102	51
Total contractual services	566	8,526	9,092	8,408
Equipment	35	19	54	129
Supplies	18	10	28	36
Total other	53	29	82	165
Total administrative and				

STATE OF ALASKA
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Schedule of Payments to Consultants Other than Investment Advisors (000s omitted)

Years ended June 30, 1999 and 1998

investment expenses	**$ 1,722**	**9,097**	**10,819**	**10,757**

Firm	Services	1999	1998
State Street Bank and Trust Company	Custodian banking services	$ 474	558
William M. Mercer, Inc.	Actuarial services	77	82
Powertech Toolworks, Inc.	Data processing consultants	109	62
The Retirement Concepts Group, Ltd.	Data processing consultants	62	20
KPMG LLP	Auditing services	17	20
State of Alaska, Department of Law	Legal services	21	18
Wohlforth, Vassar, Johnson and Brecht	TRS Board legal services	12	9
		$ 772	**769**

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